



Impact Investment in CEE

Opportunity or Necessity?

7 June, 2013

THE BOSTON CONSULTING GROUP



Agenda

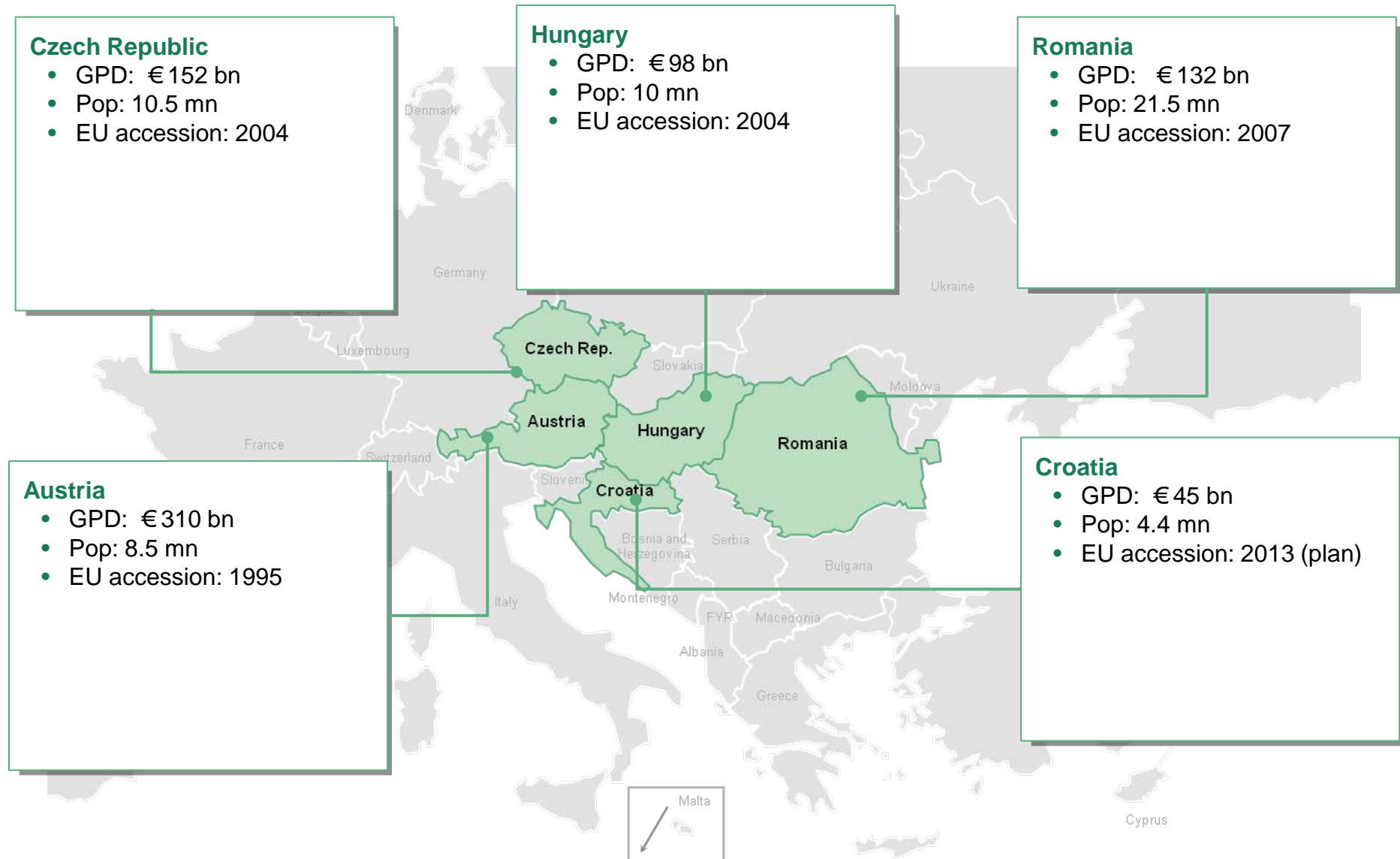
Intro to CEE

Investor environment

Ventures landscape

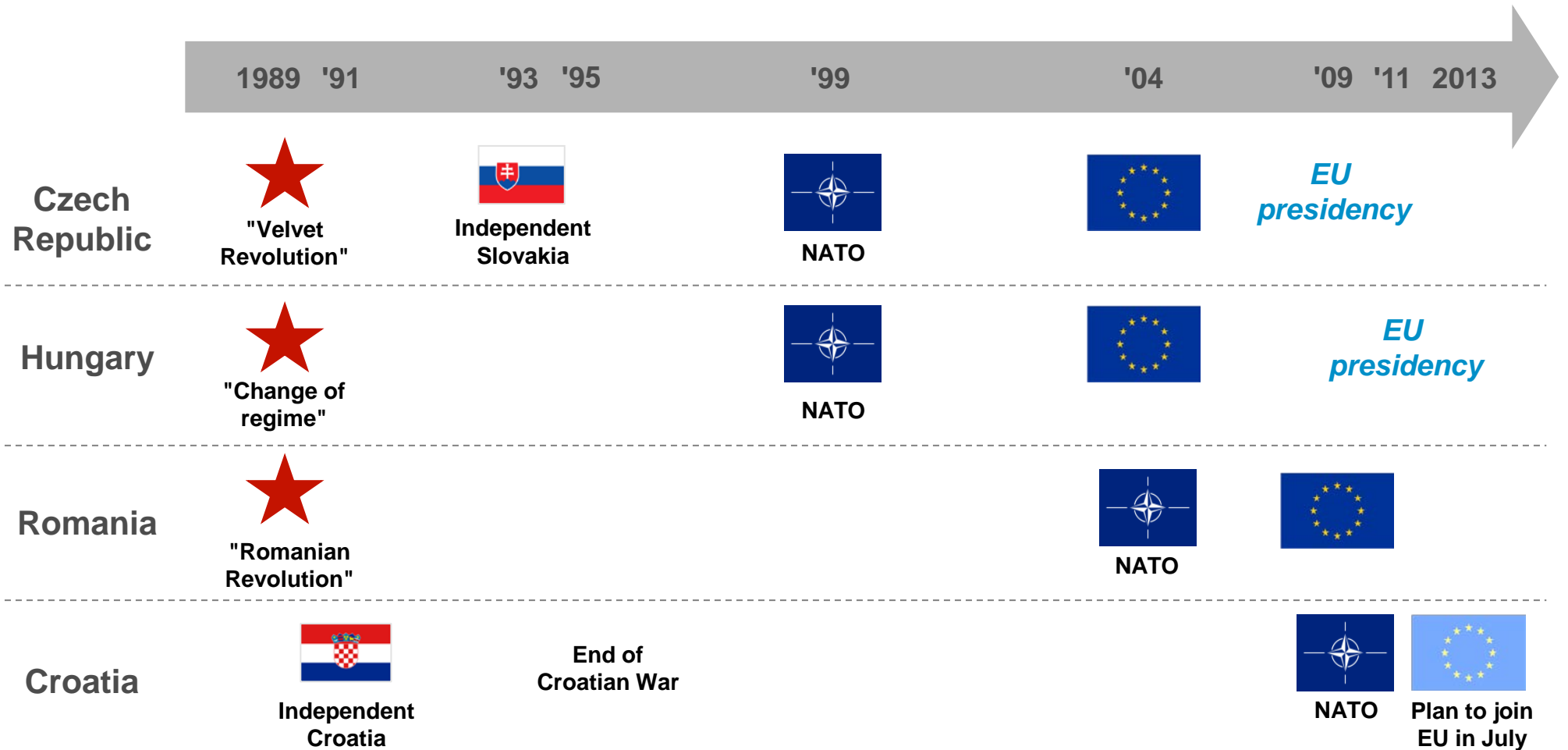
5 CEE countries represent 55 mn people and €750 bn GDP

Size of UK population with 1/3 of the economy, with global and regional MNCs



CEE countries are at different stages of market developments

Developments are mostly triggered by political stabilization and opening

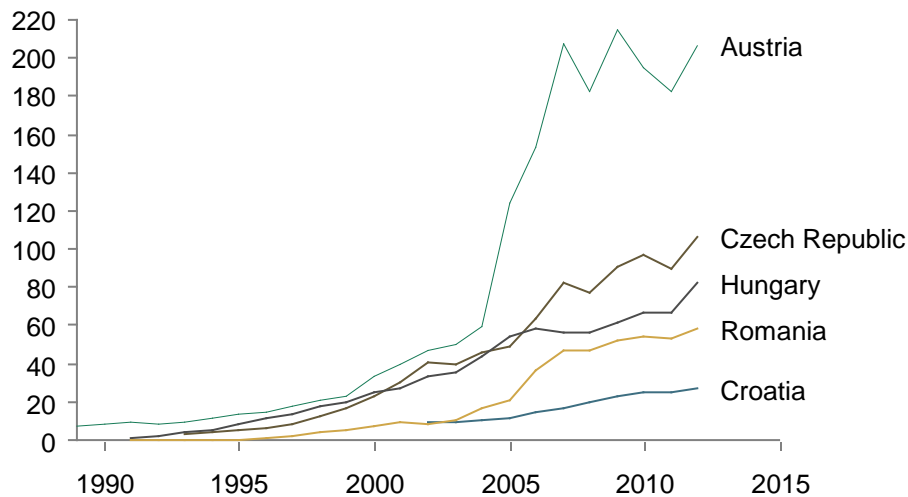


Foreign direct investment is driving GDP growth in the region

Austria, Czech republic and Hungary benefit more from the foreign investors

FDI is growing in the region

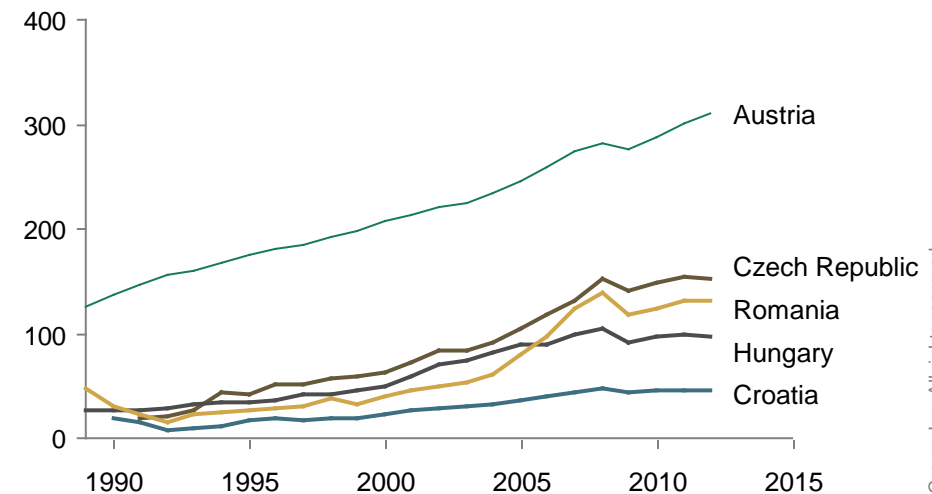
Stock of inward FDI, bn EUR



- **Austria** has received capital injection in 2005, but recent development are controversial
- **CZ and Romania** with growing stock of investments, but slowing down after the crisis
- **Hungary** was left behind its peers (CZ, PL)
- **Croatia** never started to accelerate (vs RO) – potential in real economy is questionable

FDI triggers growth in emerging markets

Nominal GDP, bn EUR



- **Austria** is the only country to climb back to pre crisis level and accelerate further
- **CZ and Romania** accelerated prior to crisis, may have the potential to continue
- **Hungary and Croatia** was stagnant even prior to crisis

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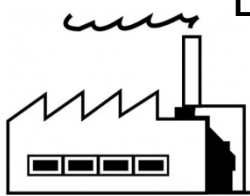
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Common features of CEE markets create opportunity and necessity for investors

Common market features



Low level of domestic capital

- Traditionally labor intensive industries (agriculture, food)
- Devastation of assets during the socialism



Export oriented economy

- Small domestic markets and low consumption
- Natural size of the markets is small (except for from Romania)



High share of inactive/unemployed population

- Heritage of large social system
- Growing inequalities and reduced mobilization in society

Necessity

Emerging markets need FDI for growth

- FDI is 70% of GDP in Austria, while only 20% in RO

Small markets need external market for stability

- 70% of HUN GDP is export

Investment creates new workplaces

- Especially investment in SME sector

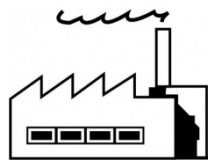
Opportunity

Low level of investment leaves lot of further opportunity for scaling up

Well established practice of foreign trade

- Investors can build their regional strategy

Large pool of inactive is potential pool for low cost of labor

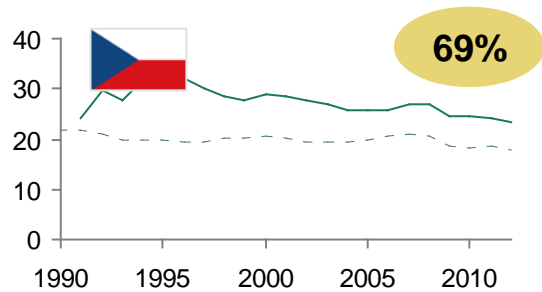


Developments attract FDI more than Western Europe

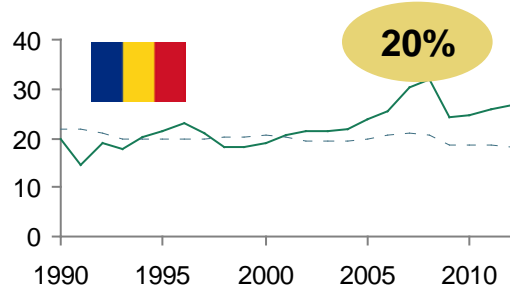
Attractiveness is highest in CZ and RO

Need for capital

Investments, % of GDP



Investments, % of GDP

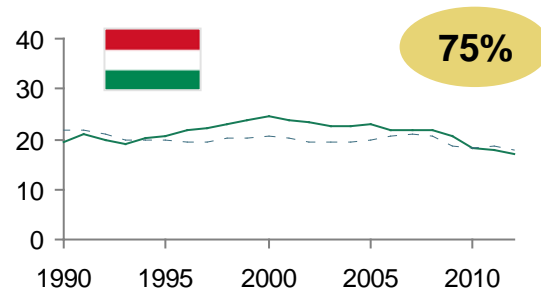


Real economy can grow further by using more FDI

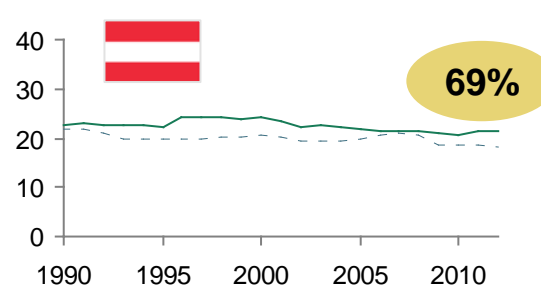
Romania: low base of investment stock shows need for FDI

Not capital driven

Investments, % of GDP



Investments, % of GDP

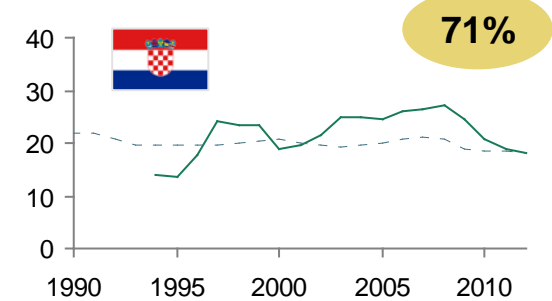


Economies already using high level of FDI

Hungary: need to find capabilities to grow apart from capital inflow

Question mark

Investments, % of GDP



xx% Stock of inward FDI/GDP

— Country
 - - - Western Europe

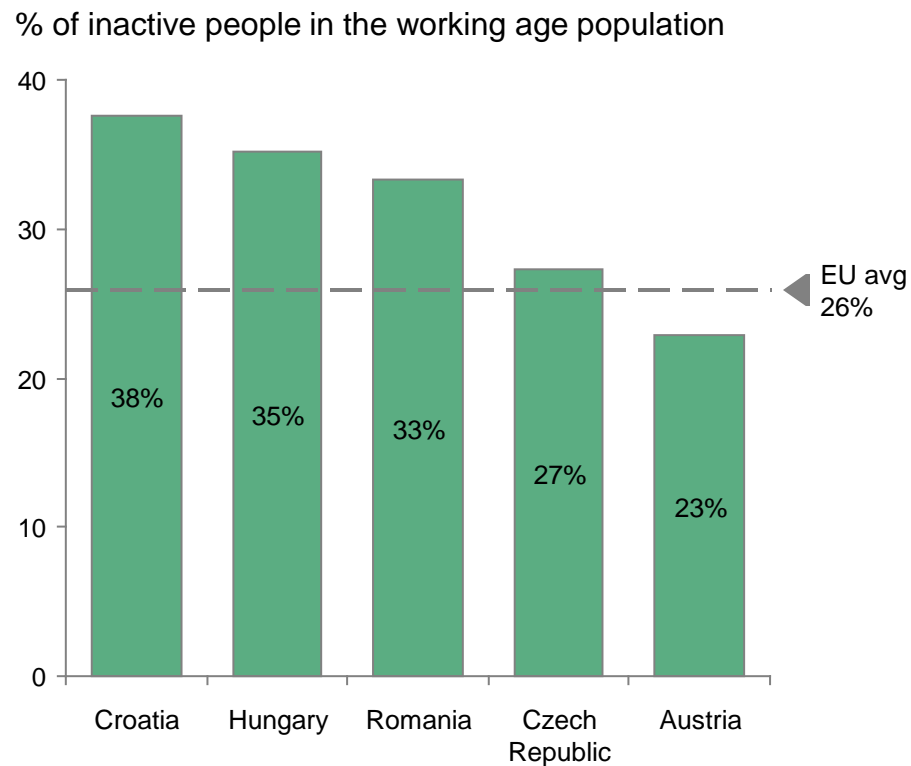
Lower level of development with less and unstable foreign capital

Is Croatia "Investment Ready"?

High share of inactive population creates a need for socially responsible investors



~30% of working age population is inactive



Implications for Impact Investors

High share of inactive population is a legacy of the past 50 years

- Old generations had qualifications that did not match the needs for new industries
- Large social system created a pool of inactive people without motivation

New generation of labor is ready to start on the labor market

- High qualification of young people
- Reforms in the social and tax systems give more incentives for participation

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Large SME sector has a high potential for impact investors

SME sector is developed in CEE

SMEs employ ~70% of the business sector

SMEs create ~60% of the added value in business sector

2.5 million SME in CEE

- Largest concentration in CZ and HUN
- Developing in RO and HR

Large pool of SMEs with significant impact

Large share of high value add SMEs

High share of knowledge based SMEs in HUN and Austria

High share of technology intensive SMEs in Czech Republic

Romania and Croatia is developing its high value add SME sector

Potential to gain high return from high value add SMEs

SMEs are looking for finance

SMEs have lower access to finance in general

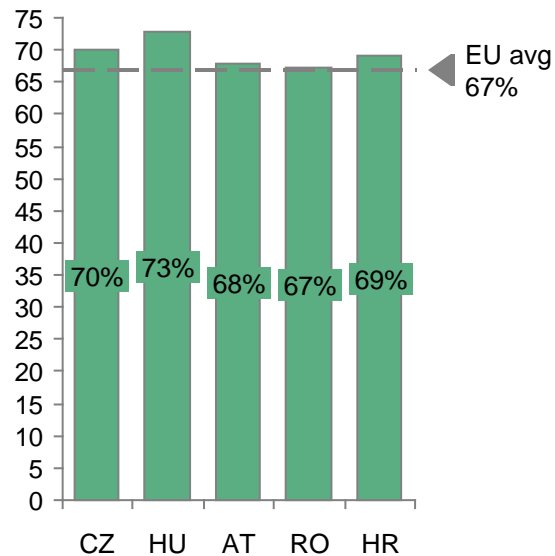
Venture Capital investments in the region is lower than the EU average

There is opportunity to find SMEs for scale up

SME is a large sector with significant impact on society

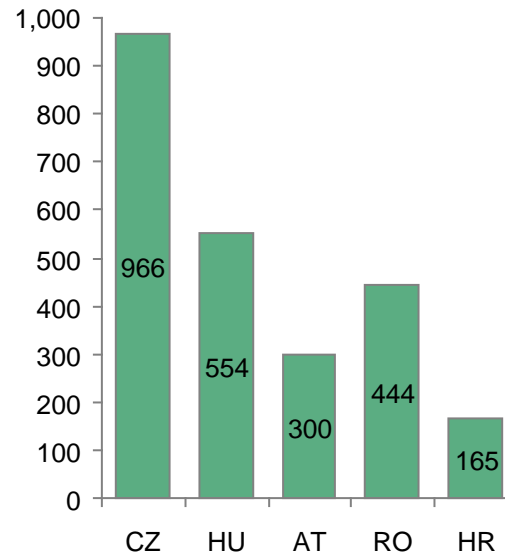
Employees¹

% of total employees, 2010



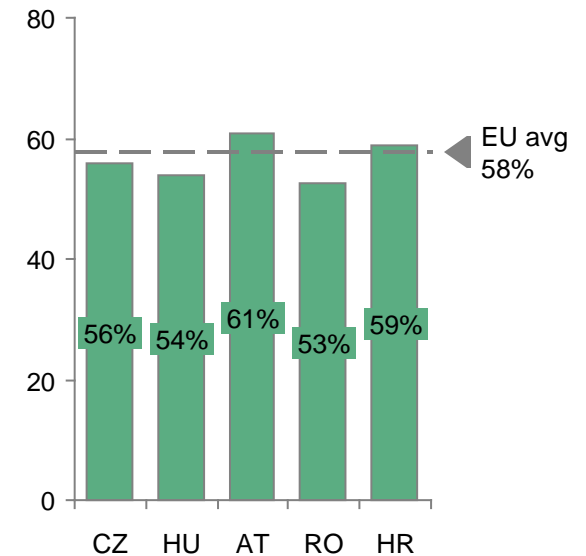
Number of SMEs

of SMEs, '000, 2010



Value add of SMEs¹

% of GDP, 2010



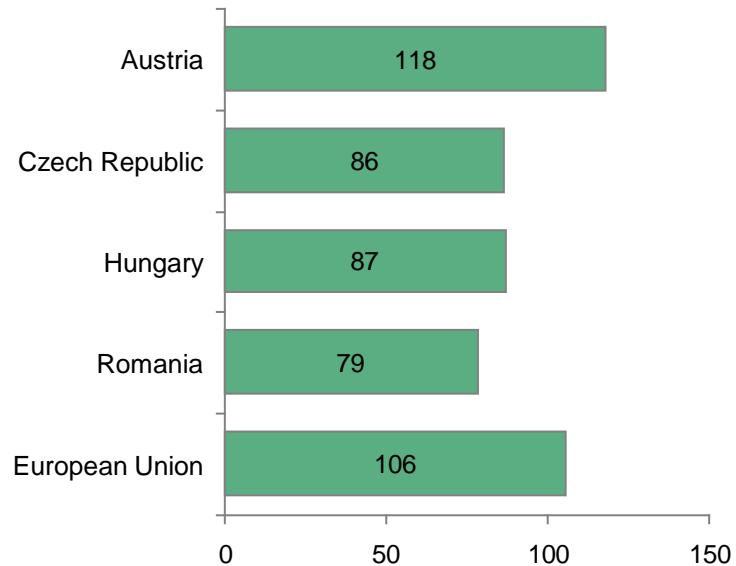
Large pool of SMEs with significant impact

1. The data cover the 'business economy' which includes industry, construction, trade, and services (NACE Rev. 2 Sections B to J, L, M and N). The data does not cover the enterprises in agriculture, forestry, fishing or the largely nonmarket services such as education and health.

Growing support for SME sector

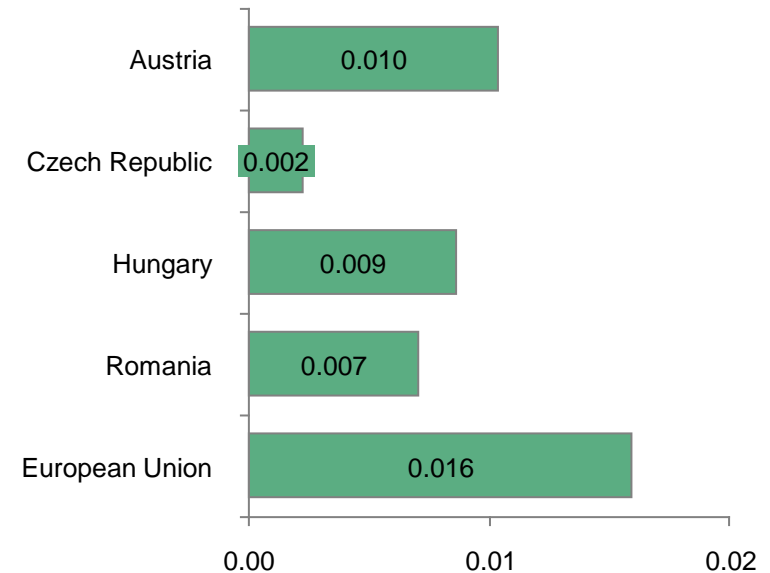
CEE ventures have lower access to all type of financing

SMAF index, 2010



Venture Capital Investment remains lower than in EU

VC as % of GDP, 2010



Need for investors in SME sector is inevitable, creating opportunity for impact investors



Thank you

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